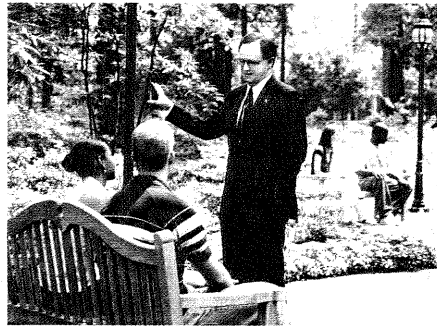


University of Kentucky
**Consolidated
Financial
Statements**

2005



U.K. UNIVERSITY OF KENTUCKY

University of Kentucky

Consolidated Financial Statements

Year Ended June 30, 2005

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MESSAGE FROM THE PRESIDENT

When this university becomes a Top-20 public research university, school historians may very well identify 2004-05 as the year that catapulted the University of Kentucky into a higher academic stratosphere. UK made great strides toward fulfilling its Top-20 dreams during the past year. We educated more students and conducted more research, while our faculty and staff worked to improve lives across the Commonwealth.

Before we look ahead to the next fiscal year, I would like to touch upon some of last year's highlights.

Support from Frankfort

UK could not have reached new heights in 2004-05 without strong legislative support. The 2005 legislative session was the most favorable since I became President in 2001. Thanks to the Governor and bipartisan support in the legislature, the university is poised to move ahead with a number of projects that will lead our land-grant mission into the 21st century.

For the first time since I became President, we received additional operating funds to support our growth and expansion efforts.

We also received legislative approval for our new UK Hospital patient care facility project. The \$375 million project, the largest in UK history, includes a new \$250 million bed tower, as well as a \$125 million facility renovation. The refurbished hospital will provide central and eastern Kentucky counties with the type of high-quality medical services that Kentucky needs. It also will provide the community with 1,600 jobs during the peak of construction and 1,300 permanent positions after completion. Most importantly, no state dollars will be used to finance the project.

One of the nation's 10 best pharmacy programs also received legislative support. The College of Pharmacy received \$40 million in bonds for construction of a new pharmacy complex on campus. It was a positive first step for the pharmacy project, which, once completed, will make a major impact throughout Kentucky. Work force estimates indicate the need to



President Lee T. Todd, Jr. addresses University faculty and staff outside Patterson Office Tower.

increase pharmacy enrollment by 80 percent across the Commonwealth. Since 90 percent of UK pharmacy students are Kentuckians who hope to remain in the Commonwealth, this project will make an important impact throughout the state. We are hopeful Kentucky legislators will again support UK's nationally ranked pharmacy program during the 2006 General Assembly.

The Governor and legislature also supported our Livestock Disease Diagnostic Center, which will greatly benefit Kentucky's equine and cattle industries.

We were grateful for the legislative backing we received in 2004-05, and we are looking forward to the upcoming legislative session so we can build on last year's momentum.

Enhancing Kentucky's Capacity for Learning

The University of Kentucky's Top-20 mission starts in the classroom. And if our current crop of students is indicative of that mission, UK is on the right path.

Last year's entering class was the most competitive in school history. Our fall 2004 freshman class included a UK-record 3,987 students, 3,109 of whom are from Kentucky. The freshman class had 35 National Merit Scholars; two National Achievement Scholars; 275 Governor's Scholars, and 28 Governor's School for the Arts students. It also included 157 valedictorians.

Early projections of our 2005-06 class indicate UK is primed for another record year.

UK students continue to prove something that we have known for years: they are some of the best and brightest in the nation. Ryan Quarles of Georgetown, Kentucky, received the prestigious Harry S. Truman Scholarship in March, the 12th UK student to earn such an honor. He is the only student from a Kentucky institution to be named a Truman Scholar.

Nicholas Badre and Jason Passafiume became the seventh and eighth students chosen as Beckman Scholars since UK became a participating university in 2002. The Beckman Foundation renewed UK's participation for a second three-year period last month.

In an attempt to enhance undergraduate education, we created the Center for Undergraduate Excellence. The center established a cooperative environment to strengthen academic excellence at the university, bringing together such programs as the Honors Program, undergraduate research, study abroad, and a host of other initiatives.

Enhancing Kentucky's Economy

University of Kentucky Research set another record in 2004-05, bringing in \$274 million in grants and contracts, a 15 percent increase over last year's then-record total of \$238 million. UK also moved from 31st to 28th among all public universities for federal research expenditures, an important measure collected by the National Science Foundation.

UK's research enterprise makes a significant impact on this state's economy. It was estimated that externally supported research led to approximately 9,060 jobs in Kentucky in fiscal year 2004-05. It was also estimated that research from out-of-state sources contributed approximately \$169.4 million in personal income to people in Kentucky. Each dollar of out-of-state external funding for research generates an additional 80 cents in indirect expenditures.

Our research enterprise – particularly our medical research – got a boost with the opening

of the \$75 million Biomedical Biological Sciences Research Building (BBSRB). Featuring an open-format design that will encourage collaborative research, the BBSRB will be home to 350-400 research faculty, staff and students who will concentrate on groundbreaking research in neuroscience, genomics and proteomics. UK researchers are dedicated to conducting the type of research that will make an impact on Kentucky families. In May, we announced an initiative to help alleviate some of the nagging issues that have held Kentucky back called the Commonwealth Collaboratives. The plan calls for the university to conduct research and participate in projects to alleviate some of Kentucky's most pressing problems.

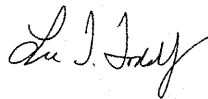
The Commonwealth Collaboratives will focus on four areas: health care, agriculture, education, and economic development. UK faculty and researchers will lead efforts to battle conditions in these areas to improve educational, social and economic conditions in all 120 Kentucky counties.

The Commonwealth Collaboratives are a clear illustration of the University of Kentucky's land-grant mission. UK is your university, Kentucky's university. And we need to play an integral role in helping Kentuckians solve their problems and realize their dreams.

UK must be a positive change agent in the Commonwealth. Through education, research and service, UK is wholly committed to becoming the type of Top-20 university the legislature demands and Kentuckians deserve.

On my first day as UK President I was asked what I hoped people would say about me on my last day on the job. I said if UK did more for the people of Kentucky than any other land-grant university of the nation, I would be satisfied.

That is still my hope today.



Lee T. Todd, Jr.
President

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and Administration Cabinet of the
Commonwealth of Kentucky

We have audited the accompanying consolidated statements of net assets of the University of Kentucky (the University) (an agency of the Commonwealth of Kentucky) and affiliated corporations as of June 30, 2005 and 2004, and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University of Kentucky and affiliated corporations as of June 30, 2005 and 2004, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 1, 2005

Management's Discussion and Analysis

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of the University of Kentucky (the University) and its affiliated corporations for the years ended June 30, 2005 and 2004. Management has prepared this discussion, and we encourage you to read it in conjunction with the consolidated financial statements and the notes appearing in this report.

About the University of Kentucky

Located in Lexington, the University of Kentucky is the Commonwealth of Kentucky's flagship institution of higher education. As a land grant institution, the University is dedicated to enriching people's lives through excellence in teaching, research and service and plays a critical leadership role for the state by promoting human and economic development that improves lives within Kentucky's borders and beyond.

The University of Kentucky has a presence in all 120 counties – through its Agricultural Extension Service – with an impact nationwide and abroad. Total enrollment is nearly 27,000 students, representing all Kentucky counties, every state in the nation, and 117 countries. In 2004 - 2005, the University conferred 6,272 degrees among its comprehensive academic programs. About 1,900 full-time faculty and 9,000 full-time staff are employed by the University.

The University consists of 16 colleges, plus the Graduate School. With 93 undergraduate programs, master's degrees in 99 fields, doctoral degrees in 66 programs, and four professional programs, the colleges include: Agriculture, Arts and Sciences, Business and Economics, Communications and Information Studies, Dentistry, Design, Education, Engineering, Fine Arts, Health Sciences, Law, Medicine, Nursing, Pharmacy, Public Health, and Social Work. The University boasts more than 80 national rankings for academic excellence.

The University's William T. Young Library is among the world's leading research libraries; its book endowment is the largest among public universities and ranks second only to Harvard University among all universities. Its broad scope of technology offers students, faculty and Kentucky residents access to the most up-to-date information from online journals, government publications, and private studies, as well as more traditional materials.

The UK Chandler Medical Center, which opened in 1960, is considered one of the nation's finest academic medical centers. The faculty, students and staff take pride in achieving excellence in education, patient care, research, and community service. As one of two Level 1 Trauma Centers in the state and the first health-care facility in Central and Eastern Kentucky to obtain distinction as a Primary Stroke Center, UK Hospital cares for the most critically injured and ill patients in the region. The 473-bed UK Hospital and UK Children's Hospital are supported by more than 500 faculty physicians and dentists, 400 resident physicians, and a staff of 3,200 health professionals committed to high-quality patient care.

Research at the University is a dynamic enterprise encompassing both traditional scholarship and emerging technologies. The Advanced Science and Technology Commercialization Center, for example, is a hub for multidisciplinary research collaboration. It is just one of more than 50 research centers and institutes across campus, including the highly acclaimed Sanders-Brown Center on Aging, Morris K. Udall Parkinson's Disease Research Center of Excellence, and Markey Cancer Center, where University researchers are discovering and developing new treatments to improve health care, providing a rich training ground for the next generation of researchers, and advancing the state's economic growth.

During fiscal year 2005, the University faculty received a record-breaking total of \$274.0 million in extramural funding for grants and contracts. The achievement marked an increase of 15 percent from last fiscal year and the fourth year in a row the University exceeded the \$200 million level in sponsored project awards.

The majority of grants and contracts – 56 percent – were awarded by federal agencies and totaled \$152.2 million, an increase of 6 percent. Due to the University's improvement – from 31st to 28th among public research institutions – in the National Science Foundation's most recent rankings of federal spending obligations, the Commonwealth of Kentucky is now ranked 30th, up from 33rd.

The University is committed to strong public service, reaching out to communities across the Commonwealth, sharing knowledge and making a difference in the towns, cities, and lives of all Kentuckians. An example is Health Education through Extension Leadership, a partnership between the College of Public Health, the College of Dentistry, the College of Agriculture, and the Cooperative Extension Service to enhance extension agents' capacity to deliver valuable health and wellness information throughout the state.

The University's agenda is simple – to be a catalyst for a new Commonwealth, one that is healthier, more prosperous and economically secure and that educates the state's best and brightest. The University is accelerating the movement toward academic excellence, becoming known worldwide for the quality of its academic programs, its commitment to undergraduates, its success in building a diverse community, and its engagement with the larger society.

Research Challenge Trust Fund

In 1998, the Commonwealth of Kentucky initiated the Research Challenge Trust Fund (RCTF), an endowment match program. Since that time, the Commonwealth has appropriated more than \$350 million to the public universities to be matched with private donations primarily to support chairs and professorships, fellowships and scholarships, and the research and graduate missions of the institutions. To date, the University of Kentucky has been allocated \$202.2 million in RCTF funding.

Financial Highlights

The University's overall financial position remains strong with assets of \$2.45 billion and liabilities of \$582.0 million. Net assets, which represent the University's residual interest in assets after liabilities are deducted, were \$1.86 billion or 76 percent of total assets.

- Total assets increased \$137.7 million, or 6 percent, primarily due to increases in cash and cash equivalents, endowment investments and capital assets.
- Total liabilities increased \$13.0 million, or 2 percent, primarily due to the issuance of new debt, offset by payments of current year principal maturities on bonds and capital lease obligations, and increases in self insurance reserves.
- Total net assets increased \$124.7 million, or 7 percent, due to an increase in net capital assets of \$13.3 million; an increase in restricted net assets of \$49.9 million, primarily due to additions to endowments of \$37.5 million and realized and unrealized gains on endowment investments of \$26.7 million; and an increase of \$61.4 million in unrestricted net assets, primarily due to excess revenues over expenses in the hospital and general funds.
- Operating revenues were \$1.19 billion and operating expenses were \$1.47 billion, resulting in a loss from operations of \$281.2 million. Nonoperating revenues, including \$287.9 million in state appropriations, net of nonoperating expenses, were \$405.9 million, which, when combined with the loss from operations, resulted in an overall increase in net assets of \$124.7 million.

Using the Consolidated Financial Statements

The University presents its financial reports in a "business type activity" format, in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial report includes a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements. GASB requires that statements be presented on a consolidated basis to focus on the University as a whole.

Reporting Entity

The University of Kentucky is a component unit of the Commonwealth of Kentucky. The consolidated financial statements of the University include the operations of the University and the following entities:

- University of Kentucky Research Foundation, and its for-profit subsidiary, Kentucky Technology, Inc.
- University of Kentucky Athletic Association
- The Fund for Advancement of Education and Research in the University of Kentucky Medical Center
- University of Kentucky Business Partnership Foundation, Inc.
- University of Kentucky Center on Aging Foundation, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- University of Kentucky Mining Engineering Foundation, Inc.
- Central Kentucky Management Services, Inc. (formerly Health Care Collection Service, Inc.)
- Kentucky Medical Services Foundation, Inc.
- Kentucky Healthcare Enterprises, Inc., a for-profit subsidiary.

Consolidated Statement of Net Assets

The Consolidated Statement of Net Assets is the University's balance sheet. It reflects the total assets, liabilities and net assets (equity) of the University as of June 30, 2005, with comparative information as of June 30, 2004. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Net assets, the difference between total assets and total liabilities, are an important indicator of the University's current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year. Generally, assets and liabilities are reported using current values. A major exception is capital assets, which are stated at historical cost, less accumulated depreciation. A summarized comparison of the University's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 is as follows:

Condensed Consolidated Statement of Net Assets (in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Current assets	\$ 542,273	\$ 480,985	\$ 481,649
Capital assets, net of depreciation	1,028,064	982,366	900,856
Other noncurrent assets	874,771	844,098	729,235
Total Assets	<u>2,445,108</u>	<u>2,307,449</u>	<u>2,111,740</u>
LIABILITIES			
Current liabilities	213,913	204,913	199,810
Noncurrent liabilities	368,039	364,059	273,774
Total Liabilities	<u>581,952</u>	<u>568,972</u>	<u>473,584</u>
NET ASSETS			
Invested in capital assets, net of related debt	750,485	737,140	680,056
Restricted			
Nonexpendable	394,090	356,599	330,973
Expendable	216,481	204,049	175,996
Unrestricted	502,100	440,689	451,131
Total Net Assets	<u>\$ 1,863,156</u>	<u>\$ 1,738,477</u>	<u>\$ 1,638,156</u>

Assets. As of June 30, 2005, total assets amounted to \$2.45 billion. Of this amount, investment in capital assets (net of depreciation) of \$1.03 billion, or 42 percent of total assets, represented the largest asset class. Endowment assets amounted to \$555.4 million or 23 percent of total assets and cash and cash equivalents amounted to \$439.9 million or 18 percent of total assets. During the year, total assets increased by \$137.7 million primarily due to increases in cash and cash equivalents, endowment investments and capital assets.

Liabilities. As of June 30, 2005, total liabilities amounted to \$582.0 million. Bonds payable and capital leases for educational buildings, the housing and dining system, the University hospital and the William T. Young library amounted to \$331.0 million, or 57 percent of total liabilities. During the year, total liabilities increased by \$13.0 million primarily due to the issuance of new capital debt, net of principal payments on bonds and capital lease obligations, and increases in self insurance reserves.

Net Assets. The equity of the University of \$1.86 billion as of June 30, 2005 is reported on the Statement of Net Assets in four net asset categories: invested in capital assets, net of related debt, \$750.5 million (40 percent), restricted-nonexpendable, \$394.1 million (21 percent), restricted-expendable, \$216.5 million (12 percent), and unrestricted, \$502.1 million (27 percent).

Restricted net assets are subject to externally imposed restrictions governing their use. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the unrestricted net assets have been internally designated for support of academic and research programs and initiatives, capital projects, and working capital requirements.

Total net assets increased by \$124.7 million during the year ended June 30, 2005. Invested in capital assets, net of related debt, increased by \$13.3 million, primarily due to net additions to capital assets of \$123.9 million, offset by current year depreciation expense of \$78.2 million. Restricted net assets increased by \$49.9 million, primarily due to additions to permanent endowments of \$37.5 million and realized and unrealized gains on endowment investments of \$26.7 million. Unrestricted net assets increased \$61.4 million, primarily due to revenues in excess of expenditures in hospital and general funds.

2004 Versus 2003. During the year ended June 30, 2004:

- Total assets increased by \$195.7 million, primarily due to increases in endowment investments and capital assets.
- Liabilities increased by \$95.4 million primarily due to the issuance of new bonds, offset by payments of current year principal maturities on bonds and capital lease obligations.
- Total net assets increased by \$100.3 million. Invested in capital, net of related debt, increased by \$57.1 million, primarily due to net additions to capital assets of \$152.4 million offset by current year depreciation expense of \$70.9 million. Restricted net assets increased by \$53.7 million, due to an increase in permanent endowments of \$25.6 million, and an increase in expendable restricted net assets of \$28.0 million, primarily due to an increase in realized and unrealized gains on endowment investments, offset by the expenditure of net assets restricted for capital projects. Unrestricted net assets decreased \$10.4 million, primarily due to the expenditure of funds for capital assets.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

The Consolidated Statement of Revenues, Expenses and Changes in Net Assets is the University's income statement. It details how net assets have increased (or decreased) during the year ended June 30, 2005, with comparative information for the year ended June 30, 2004. This statement is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. All items that increase or decrease net assets must appear on the Consolidated Statement of Revenues, Expenses and Changes in Net Assets as revenues, expenses, gains or losses.

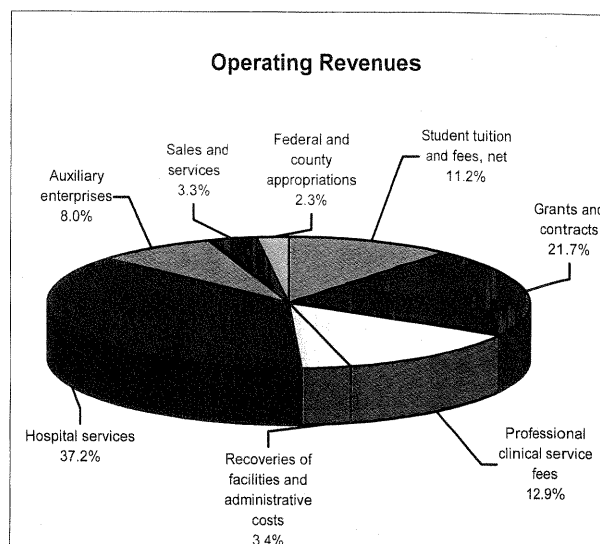
Financial activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state appropriations, gifts, and investment and endowment income to be classified as nonoperating revenues. Accordingly, the University reports a net operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition revenue is reduced by gift scholarships and institutional aid, and is reported net of scholarship allowances in the financial statements. A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004 and 2003 is as follows:

Condensed Consolidated Statement of Revenues, Expenses and Changes in Net Assets
(in thousands)

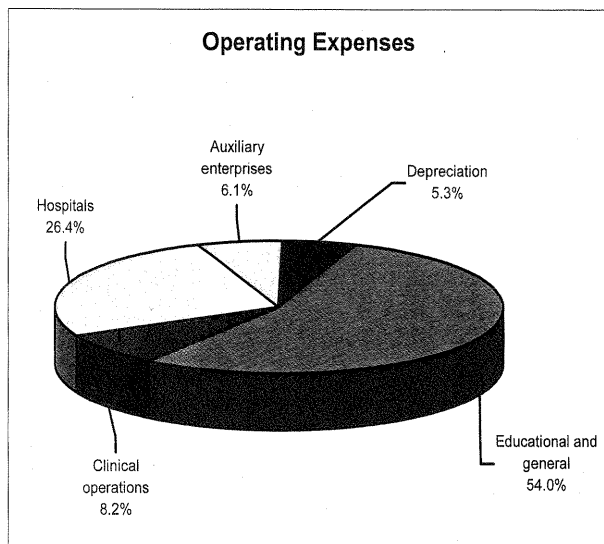
	2005	2004	2003
OPERATING REVENUES			
Student tuition and fees, net of scholarship allowances	\$ 133,389	\$ 124,034	\$ 107,485
Grants and contracts	257,896	234,092	212,920
Hospital services	440,609	370,628	343,393
Professional clinical service fees	152,477	141,989	131,451
Auxiliary enterprises, net of scholarship allowances	95,249	84,447	73,860
Sales and services	38,857	42,587	39,210
Recoveries of facilities and administrative costs	40,332	37,122	34,364
Federal and county appropriations	27,703	25,707	23,867
Other operating revenue	466	303	324
Total operating revenues	<u>1,186,978</u>	<u>1,060,909</u>	<u>966,874</u>
OPERATING EXPENSES			
Educational and general, excluding depreciation	793,746	787,780	751,083
Clinical operations, excluding depreciation	120,289	115,279	105,208
Hospital, excluding depreciation	387,685	329,142	296,375
Auxiliary enterprises, excluding depreciation	87,885	80,334	76,118
Depreciation	78,219	70,888	68,323
Other	381	276	223
Total operating expenses	<u>1,468,205</u>	<u>1,383,699</u>	<u>1,297,330</u>
OPERATING LOSS	<u>(281,227)</u>	<u>(322,790)</u>	<u>(330,456)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	287,897	302,539	304,735
Capital appropriations	732	2,070	1,660
Capital grants and gifts	18,915	15,275	20,005
Gifts and grants	24,638	22,477	19,721
Investment income	56,517	78,102	34,245
Interest on capital asset - related debt	(13,062)	(11,970)	(11,487)
Additions to permanent endowments	33,650	21,036	24,708
Transfer of net assets of Lexington Community College	(4,968)	-	-
Other, net	1,587	(6,418)	2,192
Total nonoperating revenues (expenses)	<u>405,906</u>	<u>423,111</u>	<u>395,779</u>
Total increase in net assets	<u>124,679</u>	<u>100,321</u>	<u>65,323</u>
Net assets, beginning of year	<u>1,738,477</u>	<u>1,638,156</u>	<u>1,572,833</u>
Net assets, end of year	<u><u>\$ 1,863,156</u></u>	<u><u>\$ 1,738,477</u></u>	<u><u>\$ 1,638,156</u></u>

Total operating revenues were \$1.19 billion for the year ended June 30, 2005, an increase of \$126.1 million (12 percent). The primary components were student tuition and fees of \$133.4 million; grants, contracts and recoveries of facilities and administrative costs of \$298.2 million; hospital services of \$440.6 million; and professional clinical fee income of \$152.5 million.

The major increases were in hospital services of \$70.0 million due to a 12 percent increase in utilization and rate increases required to cover rising costs; in grants, contracts and recoveries of facilities and administrative costs of \$27.0 million due to the continued expansion of the research mission of the University and a grant from the Commonwealth of Kentucky Department of Corrections related to prisoner health care; and in tuition and fees of \$9.4 million due to tuition increases of approximately 14 percent and increased enrollment. Prior year numbers included Lexington Community College tuition revenue of \$9.9 million.



Operating expenses totaled \$1.47 billion, an increase of \$84.5 million (6 percent). Of this amount, \$793.7 million was expended for educational and general programs, including the functions of instruction, research and service. Hospital expenses, excluding depreciation, amounted to \$387.7 million and clinical operations expenses, excluding depreciation, were \$120.3 million. Depreciation expense for the year amounted to \$78.2 million.



The most significant increase was in hospital expenses of \$58.5 million (18 percent) due to increased usage of medical supplies and increased personnel costs due to higher utilization. The largest increase in educational and general expenses was in the public service area of \$14.7 million (12 percent) due to the state grant mentioned above. Instruction expenses decreased \$11.7 million (5 percent) due to the transfer of Lexington Community College, which had expenses of \$14.3 million in the prior year, effective July 1, 2004.

The net loss from operations for the year amounted to \$281.2 million. Nonoperating revenues, net of expenses, amounted to \$405.9 million, resulting in an increase in net assets of \$124.7 million for the year. Nonoperating revenues include state appropriations of \$287.9 million, a decrease of \$14.6 million due to the recurring transfer to the Kentucky Community and Technical College System for Lexington Community College and nonrecurring state budget reductions.

2004 Versus 2003. Total operating revenues were \$1.06 billion for the year ended June 30, 2004, including student tuition and fees of \$124.0 million (12 percent), grants, contracts and recoveries of

facilities and administrative costs of \$271.2 million (26 percent), professional clinical service fees of \$142.0 million (13 percent) and hospital services of \$370.6 million (35 percent). Operating revenues for fiscal 2004 increased by \$94.0 million or 10 percent over fiscal 2003, primarily due to increases in hospital services revenues of \$27.2 million, in grants, contracts and recoveries of facilities and administrative costs of approximately \$23.9 million and in student tuition and fees of \$16.5 million.

Operating expenses totaled \$1.38 billion. Of this amount, \$787.8 million, or 57 percent, was expended for educational and general programs, including the functions of instruction, research and public service. Hospital expenses, excluding depreciation, amounted to \$329.1 million, or 24 percent of the total expenses and clinical operations expenses, excluding depreciation, were \$115.3 million, or 8 percent. Depreciation amounted to \$70.9 million, or 5 percent. Operating expenses for fiscal 2004 increased by \$86.4 million or 7 percent over fiscal 2003, primarily due to increases in hospital expenses of \$32.8 million due to higher costs for medical supplies and personnel, and in educational and general expenses of \$36.7 million.

The net loss from operations for the year amounted to \$322.8 million. Nonoperating revenues, net of expenses, amounted to \$423.1 million, resulting in an increase in net assets of \$100.3 million for the year. This compares with an increase in net assets for fiscal 2003 of \$65.3 million. The most significant difference between fiscal 2003 and 2004 was an increase in investment income of \$43.9 million.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows details how cash has increased (or decreased) during the year ended June 30, 2005, with comparative financial information for the year ended June 30, 2004. It breaks out the sources and uses of cash into the following categories:

- Operating activities
- Non-capital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the University's expendable net assets appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt, and debt repayments. Purchases and sales of investments are reflected in investing activities.

The primary purpose of the Consolidated Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the University during the year that will allow financial statement readers to assess the institution's:

- Ability to generate future net cash flows,
- Ability to meet obligations as they become due, and
- The possible need for external financing.

A comparative summary of the University's consolidated statement of cash flows for the years ended June 30, 2005, 2004 and 2003 is as follows:

Condensed Consolidated Statement of Cash Flows (in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (203,467)	\$ (228,809)	\$ (248,155)
Noncapital financing activities	345,427	348,499	350,853
Capital and related financing activities	(118,891)	(79,170)	(132,164)
Investing activities	<u>15,696</u>	<u>(6,490)</u>	<u>30,432</u>
Net increase in cash	38,765	34,030	966
 Cash and cash equivalents, beginning of year	 <u>401,090</u>	 <u>367,060</u>	 <u>366,094</u>
Cash and cash equivalents, end of year	<u><u>\$ 439,855</u></u>	<u><u>\$ 401,090</u></u>	<u><u>\$ 367,060</u></u>

The University's cash and cash equivalents increased \$38.8 million in 2005. Total cash provided by operating and non-capital financing activities was \$142.0 million, up \$22.3 million compared to 2004. Total cash used for capital financing activities was \$118.9 million, reflecting both capital funding sources (debt proceeds) and uses (purchases of capital assets and debt service). Total cash provided by investing activities was \$15.7 million, primarily due to interest and dividends on investments.

Major sources of cash received from operating activities are student tuition and fees of \$133.4 million, hospital services of \$441.3 million, and grants, contracts and recoveries of facilities and administrative costs of \$299.1 million. Major uses of cash for operating activities were payments to employees for salaries and benefits of \$810.4 million and to vendors and contractors of \$548.7 million.

Noncapital financing activities includes state appropriations from the Commonwealth of Kentucky of \$287.9 million.

Capital and related financing activities include proceeds of capital debt of \$29.7 million and capital grants and gifts of \$5.7 million. Cash of \$112.9 million was expended for construction and acquisition of capital assets, \$38.2 million was expended for principal and interest payments on debt, and \$6.2 million was paid to refunding bond agents.

Investing activities include proceeds from sales and maturities of investments of \$1.74 billion and interest and dividends on investments of \$26.4 million. Cash of \$1.75 billion was used to purchase investments.

2004 Versus 2003. Cash balances improved when comparing fiscal 2004 versus fiscal 2003 with a net increase in cash of approximately \$34.0 million. The net increase in cash was due primarily to the excess funding provided by the issuance of new debt over the actual expenditures made as of June 30, 2004.

Capital Asset and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$1.03 billion at June 30, 2005, an increase of \$45.7 million. Capital assets as of June 30, 2005, and significant changes in capital assets during the years ended June 30, 2005, and 2004 are as follows (in millions):

	Balance June 30, 2003	Net Additions FY 03-04	Balance June 30, 2004	Net Additions FY 04-05	Balance June 30, 2005
Land and land improvements	\$ 89	\$ 3	\$ 92	\$ 6	\$ 98
Buildings, fixed equipment and infrastructure	1,057	60	1,117	93	1,210
Equipment, vehicles and capitalized software	347	30	377	24	401
Library materials and art	116	6	122	10	132
Construction in progress	63	26	89	(34)	55
Accumulated depreciation	(771)	(44)	(815)	(53)	(868)
Total	<u>\$ 901</u>	<u>\$ 81</u>	<u>\$ 982</u>	<u>\$ 46</u>	<u>\$ 1,028</u>

At June 30, 2005, the University has capital construction projects in progress totaling approximately \$211 million in scope. Major projects include student housing facilities and new parking structures.

Debt

At June 30, 2005, capital debt amounted to \$331.0 million, summarized by trust indenture and type as follows (in millions):

	2005	2004	2003
Consolidated Educational Buildings Revenue Bonds	\$ 141.6	\$ 154.3	\$ 114.1
Housing and Dining System Revenue Bonds	77.0	79.3	28.6
Hospital Revenue Bonds	1.8	3.8	3.8
Commonwealth Library Project (W.T. Young Library) Bonds	41.4	42.5	43.6
Capital Lease Obligations	66.1	43.1	45.0
Notes Payable	3.1	3.5	4.0
Total	<u>\$ 331.0</u>	<u>\$ 326.5</u>	<u>\$ 239.1</u>

Debt increased \$4.5 million during the year primarily due to a capital lease for the purchase and implementation of the University's new administrative computing systems, offset by the payment of current year bond maturities.

Economic Factors That Will Affect the Future

Executive management believes that the University is well-positioned to maintain its strong financial condition and to continue providing excellent service to students, patients, the community and the Commonwealth of Kentucky. The University's strong financial condition, as evidenced by the receipt of a credit rating of Aa3 from Moody's Investors Service, will provide a high degree of flexibility in obtaining funds on competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to obtain the necessary resources to sustain excellence. The following are known facts and circumstances that will affect future financial results:

- As a result of an improving economy, budgeted state appropriations for fiscal year 2005-2006 will increase for the first time in five years to \$314.3 million.
- Tuition rates for fiscal year 2006 will increase an average of approximately 12.5 percent for resident undergraduate students. The tuition rate increases combined with stable enrollment are expected to generate additional operating revenues of approximately \$15.7 million.
- As of June 30, 2005, grants and contracts of approximately \$182 million had been awarded to the University, but not expended. These contracts will provide grant revenue to future periods. Research grants and contracts awarded to the University in fiscal year 2005 were a record high of \$274.0 million.
- The University is conducting its Campaign for the University of Kentucky, a capital campaign with an expanded goal of \$1 billion. Approximately \$790 million of gifts have been received or pledged toward this goal.
- A new patient care facility with an estimated construction project cost of \$375 million has been approved by the General Assembly, with \$100 million in related bond authority approved for the current biennium.
- The University will continue its long-term endowment investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate programs funded by the endowment from temporary market volatility.
- The University does not record a liability for post-employment retiree health benefits. Governmental Accounting Standards require that this liability be recognized in the financial statements beginning June 30, 2008. The University has not completed its evaluation of the impact that the adoption of this statement will have on its financial statements, but it is likely to be significant.

Economic challenges will continue to impact the future. However, university management believes that the University of Kentucky will be able to sustain its sound financial position and continue its progress to become one of America's 20 best public research institutions.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 364,986,832	\$ 307,848,379
Notes, loans and accounts receivable, net	126,763,191	115,502,281
Investments	29,846,815	38,644,220
Inventories and other	20,675,672	18,990,178
Total current assets	542,272,510	480,985,058
Noncurrent Assets		
Restricted cash and cash equivalents	74,868,400	93,242,027
Endowment investments	555,365,026	511,928,739
Other long-term investments	213,472,794	208,484,085
Notes, loans and accounts receivable, net	31,065,483	30,443,232
Capital assets, net	1,028,063,986	982,365,781
Total noncurrent assets	1,902,835,689	1,826,463,864
Total assets	2,445,108,199	2,307,448,922
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	118,076,210	115,314,338
Deferred revenue	48,375,374	46,950,552
Long-term liabilities - current portion	47,460,973	42,647,990
Total current liabilities	213,912,557	204,912,880
Noncurrent Liabilities		
Long-term liabilities	368,039,152	364,059,493
Total liabilities	581,951,709	568,972,373
NET ASSETS		
Invested in capital assets, net of related debt	750,484,801	737,139,956
Restricted		
Nonexpendable		
Scholarships and fellowships	75,713,970	68,374,267
Research	175,871,180	153,906,008
Instruction	58,992,583	54,902,750
Academic support	78,979,700	74,926,996
Other	4,533,052	4,488,822
Total restricted nonexpendable	394,090,485	356,598,843
Expendable (See note 9.)		
Scholarships and fellowships	48,218,520	48,192,927
Research	44,296,031	39,284,399
Instruction	41,575,014	41,883,500
Academic support	22,198,641	17,535,578
Loans	8,726,094	8,283,332
Capital projects	9,563,760	10,622,979
Debt service	4,747,705	6,570,210
Other	37,155,201	31,676,231
Total restricted expendable	216,480,966	204,049,156
Total restricted	610,571,451	560,647,999
Unrestricted (See note 10.)	502,100,238	440,688,594
Total net assets	\$ 1,863,156,490	\$ 1,738,476,549

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Student tuition and fees, including pledged revenues	\$ 178,587,240	\$ 170,018,037
Less: Scholarship allowances	(45,198,300)	(45,983,729)
Net tuition and fees	133,388,940	124,034,308
Federal grants and contracts	139,634,182	134,207,554
State and local grants and contracts	88,148,206	70,043,579
Nongovernmental grants and contracts	30,113,297	29,840,995
Recoveries of facilities and administrative costs	40,332,490	37,122,226
Sales and services	38,856,761	42,586,715
Federal appropriations	16,135,899	15,622,978
County appropriations	11,567,197	10,083,679
Professional clinical service fees	152,476,528	141,988,915
Hospital services, including pledged revenues	440,609,478	370,627,540
Auxiliary enterprises:		
Housing and dining, including pledged revenues	36,359,880	36,224,731
Less: Scholarship allowances	(4,217,608)	(6,296,085)
Net housing and dining	32,142,272	29,928,646
Athletics	42,408,397	42,970,474
Other auxiliaries	20,698,585	11,548,258
Other operating revenues	465,610	302,761
Total operating revenues	1,186,977,842	1,060,908,628
OPERATING EXPENSES		
Educational and general:		
Instruction	235,308,851	247,011,317
Research	219,952,120	208,557,422
Public service	136,549,884	121,887,133
Libraries	13,440,593	13,609,420
Academic support	41,052,291	45,686,079
Student services	18,704,843	20,431,888
Institutional support	53,994,323	51,501,518
Operations and maintenance of plant	45,577,213	47,351,021
Student financial aid	29,165,814	31,743,647
Depreciation	53,528,499	50,273,283
Total educational and general	847,274,431	838,052,728
Clinical operations (including depreciation of \$726,210 in 2005 and \$718,796 in 2004)	121,015,048	115,998,394
Hospital and clinics (including depreciation of \$19,265,277 in 2005 and \$15,192,132 in 2004)	406,949,935	344,334,389
Auxiliary enterprises:		
Housing and Dining (including depreciation of \$2,183,203 in 2005 and \$2,148,480 in 2004)	34,092,645	34,369,705
Athletics (including depreciation of \$2,515,907 in 2005 and \$2,555,741 in 2004)	44,472,780	42,995,953
Other auxiliaries	14,017,792	7,672,281
Other operating expenses	381,985	276,185
Total operating expenses	1,468,204,616	1,383,699,635
Net loss from operations	(281,226,774)	(322,791,007)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	287,897,256	302,538,956
Gifts and grants	24,638,487	22,476,900
Investment income	56,517,381	78,101,981
Interest on capital asset-related debt	(13,062,343)	(11,969,667)
Other nonoperating revenues and expenses, net	3,343,018	3,916,951
Net nonoperating revenues (expenses)	359,333,799	395,065,121
Net gain (loss) before other revenues, expenses, gains, or losses	78,107,025	72,274,114
Capital appropriations	732,166	2,070,472
Capital grants and gifts	18,915,305	15,275,331
Additions to permanent endowments, including Research Challenge Trust Funds of \$14,519,692 in 2005 and \$1,864,197 in 2004	33,650,404	21,035,538
Transfer of net assets of Lexington Community College	(4,968,447)	-
Other, net	(1,756,512)	(10,334,660)
Total other revenues (expenses)	46,572,916	28,046,681
INCREASE IN NET ASSETS	124,679,941	100,320,795
NET ASSETS, beginning of year	1,738,476,549	1,638,155,754
NET ASSETS, end of year	\$ 1,863,156,490	\$ 1,738,476,549

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 133,441,920	\$ 123,841,597
Grants and contracts	258,728,281	234,600,486
Recoveries of facilities and administrative costs	40,344,165	37,167,131
Sales and services	38,667,103	42,539,769
Federal appropriations	15,724,706	15,527,585
County appropriations	11,089,895	10,292,606
Payments to vendors and contractors	(548,680,341)	(496,536,773)
Student financial aid	(29,178,203)	(31,707,371)
Salaries, wages and benefits	(810,390,049)	(777,649,684)
Professional clinic service fees	149,498,425	143,921,021
Hospital services	441,273,315	376,173,834
Auxiliary enterprise receipts:		
Housing and Dining	32,062,046	30,293,831
Athletics	41,574,832	42,282,589
Other auxiliaries	20,479,035	11,917,023
Loans issued to students	(13,313,757)	(11,756,427)
Collection of loans to students	13,359,946	9,940,975
Self insurance receipts	32,957,622	34,735,703
Self insurance payments	(32,046,168)	(30,128,712)
Other receipts (payments), net	939,603	5,735,798
Net cash provided (used) by operating activities	<u>(203,467,624)</u>	<u>(228,809,019)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	287,897,256	302,538,956
Gifts and grants received for other than capital purposes:		
Gifts received for endowment purposes	33,650,404	21,035,538
Gifts received for other purposes	25,612,601	20,710,103
Agency and loan program receipts	91,343,086	84,046,990
Agency and loan program payments	(96,238,768)	(83,998,854)
Other nonoperating receipts (payments), net	3,162,632	4,166,804
Net cash provided (used) by noncapital financing activities	<u>345,427,211</u>	<u>348,499,537</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	(4)	547,021
Capital grants and gifts	5,681,344	7,294,205
Purchases of capital assets	(112,885,265)	(149,595,685)
Proceeds from capital debt	29,651,354	185,689,095
Payments to refunding bond agents	(6,174,849)	(86,736,986)
Proceeds from sales of capital assets	10,089	238,749
Principal paid on capital debt and leases	(25,106,312)	(23,392,879)
Interest paid on capital debt and leases	(13,057,633)	(11,556,729)
Other capital and related financing receipts (payments), net	2,990,256	(1,656,327)
Net cash provided (used) by capital and related financing activities	<u>(118,891,020)</u>	<u>(79,169,536)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,736,561,278	1,665,952,773
Interest and dividends on investments	26,415,348	22,275,312
Purchase of investments	(1,747,280,367)	(1,694,718,508)
Net cash provided (used) by investing activities	<u>15,696,259</u>	<u>(6,490,423)</u>
NET INCREASE IN CASH	<u>38,764,826</u>	<u>34,030,559</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>401,090,406</u>	<u>367,059,847</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 439,855,232</u>	<u>\$ 401,090,406</u>
Reconciliation of net loss from operations		
to net cash used by operating activities:		
Operating loss	\$ (281,226,774)	\$ (322,791,007)
Adjustments to reconcile net loss		
to net cash used by operating activities:		
Depreciation expense	78,219,096	70,888,432
Change in assets and liabilities:		
Notes, loans and accounts receivable, net	(6,912,821)	5,992,813
Inventories and other assets	(1,460,218)	(2,064,424)
Accounts payable and accrued liabilities	1,549,214	7,859,203
Deferred revenue	2,148,691	5,444,662
Long term liabilities	4,215,188	5,861,302
Net cash used by operating activities	<u>\$ (203,467,624)</u>	<u>\$ (228,809,019)</u>

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky (the University) is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth. The consolidated financial statements of the University include the operations of the University, its for-profit subsidiary (Kentucky Healthcare Enterprise, Inc.) and its affiliated non-profit corporations (entities for which the University is financially accountable as defined by Statement No. 14 and amended by Statement No. 39 of the Governmental Accounting Standards Board) as follows: The University of Kentucky Research Foundation and its for-profit subsidiary (Kentucky Technology, Inc.); The Fund for Advancement of Education and Research in the University of Kentucky Medical Center; University of Kentucky Athletic Association; Central Kentucky Management Services, Inc. (formerly Health Care Collection Service, Inc.); University of Kentucky Mining Engineering Foundation, Inc.; University of Kentucky Business Partnership Foundation, Inc.; University of Kentucky Gluck Equine Research Foundation, Inc.; University of Kentucky Humanities Foundation, Inc.; University of Kentucky Center on Aging Foundation, Inc.; and Kentucky Medical Services Foundation, Inc.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the principal of the University's permanent endowment funds.
 - Expendable* – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Summary of Significant Accounting Policies

Accrual Basis. The consolidated financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The University reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Noncurrent cash and cash equivalents includes plant funds allocated for capital projects and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by the University's endowment fund managers are included in endowment investments.

Inventories. Inventories are stated principally at the lower of average cost or market.

Pooled Endowment Funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains. The University's endowment spending rule provides for an annual distribution of 5 percent of the three-year moving average market value of fund units. For the years ended June 30, 2005 and 2004 approximately \$11,481,000 and \$16,114,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately \$98,026,000 at June 30, 2005.

The Investment Committee of the University's Board of Trustees has approved spending rate distributions of 4.75 percent and 4.50 percent for fiscal years 2005-06 and 2006-07, respectively, of the three-year moving average market value of fund units. Additionally, the University assesses eligible endowment accounts with a management fee to support fundraising and endowment administration. The management fee was 1 percent of total asset value during the years ended June 30, 2005 and 2004. The Investment Committee has approved a management fee of .75 percent and .50 percent of total asset value for fiscal years 2005-06 and 2006-07, respectively.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year, is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, 10 years for library books and 5 – 20 years for equipment.

The University capitalizes, but does not depreciate, works of art and historical treasures that are held for exhibition, education, research and public service.

Deferred Revenue. Deferred revenue consists primarily of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as advance athletic ticket sales relating to future fiscal years and unearned summer school revenue.

Student Tuition and Fees. Student tuition and fees are presented net of scholarship allowances applied to student accounts. Stipends and other payments made directly to students are presented as student financial aid expenses.

Hospital and Clinical Services Revenues. Hospital and clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Income Taxes. The University is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.100 through 164.280. Accordingly, the University is excluded from Federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986. The majority of the University's affiliated non-profit organizations have received a determination from the Internal Revenue Service granting exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy. The University's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The University defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as bad debt and contractual allowances, self-insurance reserves, accrued expenses and other liability accounts.

Recent Accounting Pronouncements. In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The University has not yet completed its evaluation of the impact that the adoption of this statement will have on its financial statements, but it is likely to be significant.

2. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the Trust Fund, as stated in the Bill, include support of efforts by the University of Kentucky to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar match basis. This program, also known as "Bucks for Brains", supports endowed chairs, professorships and graduate fellowships, and the research and graduate mission of the University.

The status of the RCTF endowed funds as of June 30, 2005, is summarized as follows (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date	Matching Pledges Receivable
1998 Biennium	\$ 100,000	\$ 66,667	\$ 66,667	
2000 Biennium	100,000	68,857	68,857	\$ 6,982
2002 Biennium	100,000	66,667	16,333	6,282
Total	<u>\$ 300,000</u>	<u>\$ 202,191</u>	<u>\$ 151,857</u>	<u>\$ 13,264</u>

Interest income of approximately \$2.2 million earned on the state matching funds is included in the University's share of the 2000 Biennium funding.

The University expects to fully realize all outstanding matching pledges, however, it may be obligated to return any state funds and accrued interest income related to pledges not received within five years of the initial pledge dates if unable to replace the unpaid pledges with other eligible gifts. A payment schedule of the outstanding pledges is shown below (in thousands):

	2000 Biennium	2002 Biennium
Pledges due in fiscal years 2005 or prior	\$ 536	\$ 395
Pledges due in fiscal year 2006	5,541	1,351
Pledges due in fiscal year 2007	763	1,479
Pledges due in fiscal year 2008	112	1,533
Pledges due in fiscal year 2009	30	964
Pledges due in fiscal year 2010	-	560
Total	<u>\$ 6,982</u>	<u>\$ 6,282</u>

2. RESEARCH CHALLENGE TRUST FUND

The Research Challenge Trust Fund (RCTF) was created by the Kentucky General Assembly with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The objectives of the Trust Fund, as stated in the Bill, include support of efforts by the University of Kentucky to attain status as a top-20 public research university. The RCTF Endowment Match Program provides state funds on a dollar-for-dollar match basis. This program, also known as "Bucks for Brains", supports endowed chairs, professorships and graduate fellowships, and the research and graduate mission of the University.

The status of the RCTF endowed funds as of June 30, 2005, is summarized as follows (in thousands):

	Kentucky General Assembly Funding	University of Kentucky Share of Funding	State Funds Received to Date	Matching Pledges Receivable
1998 Biennium	\$ 100,000	\$ 66,667	\$ 66,667	
2000 Biennium	100,000	68,857	68,857	\$ 6,982
2002 Biennium	100,000	66,667	16,333	6,282
Total	<u>\$ 300,000</u>	<u>\$ 202,191</u>	<u>\$ 151,857</u>	<u>\$ 13,264</u>

Interest income of approximately \$2.2 million earned on the state matching funds is included in the University's share of the 2000 Biennium funding.

The University expects to fully realize all outstanding matching pledges, however, it may be obligated to return any state funds and accrued interest income related to pledges not received within five years of the initial pledge dates if unable to replace the unpaid pledges with other eligible gifts. A payment schedule of the outstanding pledges is shown below (in thousands):

	2000 Biennium	2002 Biennium
Pledges due in fiscal years 2005 or prior	\$ 536	\$ 395
Pledges due in fiscal year 2006	5,541	1,351
Pledges due in fiscal year 2007	763	1,479
Pledges due in fiscal year 2008	112	1,533
Pledges due in fiscal year 2009	30	964
Pledges due in fiscal year 2010	-	560
Total	<u>\$ 6,982</u>	<u>\$ 6,282</u>

3. DEPOSITS AND INVESTMENTS

The fair value and cost of deposits and investments, by type, at June 30, 2005 and 2004 are as follows (in thousands):

	2005	
	Fair Value	Cost
Deposits with banks and the		
Commonwealth of Kentucky	\$ 43,465	\$ 43,465
United States government fixed income securities	112,086	111,542
Common and preferred stocks	56,339	51,552
Pooled equity funds	334,238	284,841
Pooled real estate funds	42,504	40,378
Pooled fixed income funds	448,723	447,358
Corporate fixed income securities	28,573	27,820
Guaranteed investment contracts	41,712	41,670
Repurchase agreements	66,728	66,728
Equity in healthcare corporations	31,379	31,379
Certificates of deposit	27,810	27,794
Cash and cash equivalents	4,835	4,835
Other	148	148
Total	<u>\$ 1,238,540</u>	<u>\$ 1,179,510</u>

	2004	
	Fair Value	Cost
Deposits with banks and the		
Commonwealth of Kentucky	\$ 20,676	\$ 20,676
United States government fixed income securities	109,736	110,225
Common and preferred stocks	228,910	199,210
Pooled equity funds	154,860	112,433
Pooled fixed income funds	426,602	427,416
Corporate fixed income securities	27,221	27,533
Guaranteed investment contracts	40,734	40,621
Repurchase agreements	86,425	86,425
Equity in healthcare corporations	30,313	30,313
Certificates of deposit	21,761	21,761
Cash and cash equivalents	12,377	12,409
Other	532	532
Total	<u>\$ 1,160,147</u>	<u>\$ 1,089,554</u>

	<u>2005</u>	<u>2004</u>
Statement of Net Assets classification		
Cash and cash equivalents	\$ 364,987	\$ 307,848
Current investments	29,847	38,644
Restricted cash and cash equivalents	74,868	93,242
Endowment investments	555,365	511,929
Other long-term investments	<u>213,473</u>	<u>208,484</u>
Total	<u>\$ 1,238,540</u>	<u>\$ 1,160,147</u>

Included above in the caption "Equity in healthcare corporations" is the University's approximately 84 percent ownership of CHA Service Company (CHA), a Kentucky for-profit corporation established to provide an integrated health care delivery system throughout the Commonwealth of Kentucky. The University accounts for its investment in CHA by the equity method since, under the provision of CHA's by-laws, the University cannot exercise control over the day-to-day operations of CHA. A summary of the University's investment in CHA is as follows (in thousands):

	<u>June 30, 2003</u>	<u>Fiscal 2003-04</u>	<u>June 30, 2004</u>	<u>Fiscal 2004-05</u>	<u>June 30, 2005</u>
Capital investment	\$ 38,180		\$ 38,180		\$ 38,180
Equity in income (losses) through December 31, 2003 and 2004 (CHA fiscal year end)	<u>(2,934)</u>	<u>\$ (6,177)</u>	<u>(9,111)</u>	<u>\$ 1,226</u>	<u>(7,885)</u>
Net investment	<u>\$ 35,246</u>	<u>\$ (6,177)</u>	<u>\$ 29,069</u>	<u>\$ 1,226</u>	<u>\$ 30,295</u>

The University's equity in the net income of CHA for the six months ended June 30, 2005 was approximately \$3.8 million (unaudited). This income is not reflected in the University's consolidated financial statements as of June 30, 2005.

Deposit and investment policies. The University's Board of Trustees is responsible for establishing deposit and investment policies. Once established, the Board has delegated day-to-day management to the Treasurer of the University, who is also the Treasurer of the Board. Deposit and investment policies are developed to insure compliance with state laws and regulations as well as to establish and maintain sound financial management practices.

The University follows Kentucky Revised Statutes (KRS 42.500) for the investment of public funds, which list allowable investment instruments to include: obligations of the United States or a United States government agency; obligations of any corporation of the United States Government; collateralized certificates of deposit; highly rated uncollateralized certificates of deposit, bankers acceptances and commercial paper; highly rated securities issued by a state or local government; and mutual funds comprised of any of the above allowable investments.

For purposes of investment management, the majority of the University's deposits and investments can be grouped into five significant categories, as follows:

- Overnight investments (deposits and repurchase agreements) with local banks and the Commonwealth of Kentucky;

- Bond revenue fund investments held by the Treasurer of the Commonwealth of Kentucky as required by the University's bond trust indentures, and invested in pooled fixed income funds managed by the Commonwealth of Kentucky;
- Short term investments managed by the University, including individual securities purchased and held by the University and short term investments in pooled fixed income funds managed by the Commonwealth of Kentucky;
- Debt service reserve fund investments required by the University's bond trust indentures and held by the bond trustee;
- Endowment investments administered by the University and managed using external investment managers.

The Treasurer manages the overnight and short term investment programs of the University based on the Statement of Investment Objectives and Policies for Short-Term Current Funds Investments established by the Investment Committee of the University's Board of Trustees.

The University's policy for the investment of bond revenue and debt service reserve funds is governed by each respective bond's trust indenture.

The Investment Committee of the University's Board of Trustees establishes and maintains the University's Endowment Investment Policy.

Deposit and investment risks. The University's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below:

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the University to experience a loss of principal.

As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Overnight investment (deposits and repurchase agreements) policies minimize credit risk in several ways. Deposits are governed by State law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.
- Bond revenue fund investments held in the Commonwealth's investment pools can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.
- Short-term investments managed by the University are limited to direct obligations of the U.S. Treasury, other appropriate securities issued by federal agencies, repurchase agreements of U.S. government obligations, and certificates of deposit collateralized by U.S. government obligations or general obligations of the University of Kentucky. Short term investments held in the Commonwealth's investment pools are subject to the same credit quality requirements as denoted above for bond revenue fund investments.
- Investment securities held in bond debt service reserve funds may be invested and reinvested solely in bonds or interest bearing notes of the United States Government.
- Endowment investments held by fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

The credit quality of the University's fixed income investments as of June 30, 2005, is as follows (in thousands):

	<u>S&P/Moody's Credit Ratings</u>			
	<u>AAA/Aaa</u>	<u>A</u>	<u>BBB/Baa</u>	<u>Not rated</u>
U.S. government fixed income	\$ 77,201			
Corporate fixed income	11,587	\$ 1,021	\$ 15,964	
Fixed income pools				\$ 446,366
Repurchase agreements				66,728
Cash equivalents	4,316			
Total fixed income securities	<u>\$ 93,104</u>	<u>\$ 1,021</u>	<u>\$ 15,964</u>	<u>\$ 513,094</u>

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) are not exposed to custodial credit risk other than repurchase agreements with the Commonwealth of Kentucky which are held in the Commonwealth's name.
- Bond revenue fund investments and short term investments held in the Commonwealth's investment pools are held in the Commonwealth's name by the Commonwealth's custodian.
- Short term investments managed by the University are held in the University's name by the University's custodian.
- Investment securities held in bond debt service reserve funds are held by the respective bond trustee in a specific trust account for the benefit of the University and bondholders.
- Endowment investments are held in the University's name by the University's custodian.

At June 30, 2005, the following University deposit and investment balances held in the name of the Commonwealth of Kentucky were exposed to custodial credit risk as follows (in thousands):

	<u>State Deposits</u>	<u>Overnight Investments</u>	<u>Bond Revenue Investments</u>	<u>Short-term Investments</u>	<u>Other State Investments</u>	<u>Total</u>
Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the University's name	\$ 28,617	\$ 62,000				\$ 90,617
Uninsured, not registered in the name of the University and held by the counterparty but not in the University's name			\$ 305,815	\$ 59,558	\$ 23,847	389,220
Total	<u>\$ 28,617</u>	<u>\$ 62,000</u>	<u>\$ 305,815</u>	<u>\$ 59,558</u>	<u>\$ 23,847</u>	<u>\$ 479,837</u>

Concentrations of Credit Risk. University investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer.

As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) are not limited as to the maximum amount that may be invested in one issuer. However, all such investments in excess of Federal Depository Insurance are required to be fully collateralized by U.S. treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Bond revenue fund investments and short-term investments held in the Commonwealth's investment pools are limited as follows: U.S. dollar denominated corporate and Yankee securities issued by foreign and domestic issuers shall not exceed twenty-five (25) per cent of an individual pool and \$25,000,000 per issuer, inclusive of commercial paper, bankers' acceptances and certificates of deposit; and U. S. dollar denominated sovereign debt shall not exceed five (5) per cent of any individual portfolio and \$25,000,000 per issuer.
- There is no specific limit on the maximum amount of short term investments managed by the University that may be invested in one issuer. However, such investments are limited to direct U.S. government obligations (U.S. Treasuries) and U.S. government agencies.
- There is no specific limit on the maximum amount of investment securities held in bond debt service reserve funds that may be invested in one issuer. However, such investments are limited to bonds or interest bearing notes of the U.S. government.
- Endowment investment managers are limited to a maximum investment in any one issuer of no more than 5% of total investments.

At June 30, 2005, the University has no investments in any one issuer, other than U.S. treasury and/or agency securities, that represent 5 percent or more of total investments.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Overnight investments (deposits and repurchase agreements) have limited exposure to interest rate risk due to the short term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Bond revenue fund investments and short-term investments held in the Commonwealth's short term investment pool are limited to a duration that does not exceed 90 days. Such investments in the Commonwealth's intermediate-term investment pool must maintain a modified duration of less than 3 years.
- Short term investments managed by the University are limited to a maximum maturity of 24 months.
- Investment securities held in bond debt service reserve funds are required to have a maturity no later than two years from the date of the investment.
- Endowment investments held by fixed income managers are limited to a duration that is within +/-25% of the duration of the Lehman Aggregate Bond Index.

At June 30, 2005, the University had the following investments managed based on maturities (in thousands):

Investment Type	Maturities in Years		
	Fair Value	Less than 1	1 - 5
U.S. government fixed income	\$ 54,733	\$ 37,783	\$ 16,950
Guaranteed investment contracts	29,560	29,560	
Repurchase agreements	66,728	66,728	
Cash equivalents	5,259	5,259	
Total	<u>\$ 156,280</u>	<u>\$ 139,330</u>	<u>\$ 16,950</u>

At June 30, 2005, the University had the following investments managed based on duration (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Years)</u>
U.S. government fixed income		
Pooled endowment fund	\$ 29,884	3.73
Corporate fixed income		
Pooled endowment fund	28,573	3.68
Fixed income pools		
Pooled endowment fund	57,146	4.04
Commonwealth of Kentucky intermediate pool	263,075	1.32
Commonwealth of Kentucky short term pool	126,145	0.04
Total	<u>\$ 504,823</u>	

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The University's exposure to foreign currency risk derives from certain limited endowment investments, including pooled fixed income funds, a pooled global equity fund, and a pooled non-U.S. equity fund. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus.

At June 30, 2005, the following endowment investments were subject to foreign currency risk (in thousands):

<u>Endowment Investment</u>	<u>Fair Value</u>
Pooled fixed income funds	\$ 6,047
Pooled global equity fund	44,095
Pooled non-U.S. equity fund	62,163
	<u>\$ 112,305</u>

4. NOTES, LOANS AND ACCOUNTS RECEIVABLE

Notes, loans and accounts receivable as of June 30, 2005 and 2004, respectively, are as follows (in thousands):

	2005		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 63,199	\$ (12,611)	\$ 50,588
KMSF patient accounts	30,003	(10,894)	19,109
Student loans	27,213	(2,760)	24,453
Reimbursement receivable - grants and contracts	29,066	-	29,066
Pledges receivable	15,768	(5,986)	9,782
Accrued interest receivable	3,214	-	3,214
Student receivables	8,426	(4,388)	4,038
Other	19,133	(1,555)	17,578
Total	<u>\$ 196,022</u>	<u>\$ (38,194)</u>	<u>\$ 157,828</u>
Current portion			\$ 126,763
Non-current portion			31,065
Total			<u>\$ 157,828</u>

	2004		
	Gross Receivable	Allowance	Net Receivable
Hospital patient accounts	\$ 62,185	\$ (14,269)	\$ 47,916
KMSF patient accounts	24,974	(9,665)	15,309
Student loans	27,571	(3,050)	24,521
Reimbursement receivable - grants and contracts	29,330	-	29,330
Pledges receivable	14,846	(5,856)	8,990
Accrued interest receivable	2,011	-	2,011
Student receivables	8,404	(2,785)	5,619
Other	13,554	(1,305)	12,249
Total	<u>\$ 182,875</u>	<u>\$ (36,930)</u>	<u>\$ 145,945</u>
Current portion			\$ 115,502
Non-current portion			30,443
Total			<u>\$ 145,945</u>

5. CAPITAL ASSETS, NET

Capital assets as of June 30, 2005, and capital asset activity for the year ended June 30, 2005, are summarized as follows (in thousands):

	June 30, 2004	Additions	Deletions	June 30, 2005
Land	\$ 39,258	\$ 811	\$ 510	\$ 39,559
Land improvements - nonexhaustible	8,048	5,080	-	13,128
Land improvements - exhaustible	44,375	1,412	-	45,787
Buildings	1,048,919	76,407	-	1,125,326
Fixed equipment - communications	32,953	7,300	-	40,253
Infrastructure	34,799	9,980	-	44,779
Equipment	345,853	31,064	25,038	351,879
Vehicles	16,549	1,827	677	17,699
Library materials	115,698	4,605	1,447	118,856
Nondepreciable library materials	-	5,947	-	5,947
Capitalized software	14,254	17,211	-	31,465
Art	6,893	76	-	6,969
Construction in progress	89,562	42,281	77,041	54,802
	<u>1,797,161</u>	<u>204,001</u>	<u>104,713</u>	<u>1,896,449</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	38,193	1,648	-	39,841
Buildings	436,829	28,115	-	464,944
Fixed equipment - communications	18,366	2,670	-	21,036
Infrastructure	6,742	1,592	-	8,334
Equipment	216,747	34,188	23,200	227,735
Vehicles	12,118	1,515	630	13,003
Library materials	85,568	5,459	799	90,228
Capitalized software	232	3,032	-	3,264
	<u>814,795</u>	<u>78,219</u>	<u>24,629</u>	<u>868,385</u>
Capital assets, net	<u>\$ 982,366</u>	<u>\$ 125,782</u>	<u>\$ 80,084</u>	<u>\$ 1,028,064</u>

Capital assets as of June 30, 2004, and capital asset activity for the year ended June 30, 2004, are summarized as follows (in thousands):

	June 30, 2003	Additions	Deletions	June 30, 2004
Land	\$ 38,896	\$ 1,286	\$ 924	\$ 39,258
Land improvements - nonexhaustible	7,172	876	-	8,048
Land improvements - exhaustible	43,596	779	-	44,375
Buildings	992,925	58,537	2,543	1,048,919
Fixed equipment - communications	30,066	2,887	-	32,953
Infrastructure	33,471	1,328	-	34,799
Equipment	322,017	50,025	26,189	345,853
Vehicles	16,201	1,124	776	16,549
Library materials	109,285	7,037	624	115,698
Capitalized software	8,573	5,681	-	14,254
Art	6,793	100	-	6,893
Construction in progress	62,409	59,564	32,411	89,562
	<u>1,671,404</u>	<u>189,224</u>	<u>63,467</u>	<u>1,797,161</u>
<u>Accumulated Depreciation</u>				
Land improvements - exhaustible	36,661	1,532	-	38,193
Buildings	410,882	26,654	707	436,829
Fixed equipment - communications	16,093	2,273	-	18,366
Infrastructure	5,378	1,364	-	6,742
Equipment	210,291	31,679	25,223	216,747
Vehicles	11,355	1,474	711	12,118
Library materials	79,888	5,680	-	85,568
Capitalized software	-	232	-	232
	<u>770,548</u>	<u>70,888</u>	<u>26,641</u>	<u>814,795</u>
Capital assets, net	<u>\$ 900,856</u>	<u>\$ 118,336</u>	<u>\$ 36,826</u>	<u>\$ 982,366</u>

At June 30, 2005, the University has construction projects in process totaling approximately \$211 million in scope. The estimated cost to complete these projects is approximately \$156 million. Such construction is principally financed by proceeds from bonds.

The University has utilized capital leases to acquire various items of equipment costing approximately \$22.2 million. Additionally, the University has entered into capital lease agreements with the State Property and Buildings Commission to finance renovations to Commonwealth Stadium and for the construction of several educational buildings. The University has also utilized a capital lease to fund the purchase and implementation of its new administrative computing systems.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2005 and 2004, respectively, are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Payable to vendors and contractors	\$ 53,083	\$ 48,476
Accrued expenses, including vacation and sick leave	44,974	41,706
Employee withholdings and deposits payable to third parties	<u>20,019</u>	<u>25,132</u>
Total	<u>\$ 118,076</u>	<u>\$ 115,314</u>

7. DEFERRED REVENUE

Deferred revenue as of June 30, 2005 and 2004, respectively, is as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Unearned summer school revenue	\$ 4,692	\$ 4,383
Unearned hospital revenue	9,644	8,501
Unearned grants and contracts revenue	20,744	20,836
Prepaid athletic ticket sales	8,245	9,058
Unearned state deferred maintenance pool funds	475	1,207
Other	<u>4,575</u>	<u>2,966</u>
Total	<u>\$ 48,375</u>	<u>\$ 46,951</u>

8. LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2005, and long-term liability activity for the year ended June 30, 2005, are summarized as follows (in thousands):

	June 30, 2004	Additions	Reductions	June 30, 2005	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
Educational buildings bonds	\$ 154,325		\$ 12,760	\$ 141,565	\$ 13,610	\$ 127,955
Housing and dining bonds	79,275	\$ 6,230	8,450	77,055	3,055	74,000
Hospital bonds	3,850	-	2,080	1,770	1,770	-
Library bonds	42,520	-	1,105	41,415	1,165	40,250
Capital leases	43,086	29,700	6,709	66,077	5,003	61,074
Notes payable	3,485	3,062	3,443	3,104	2,713	391
Total bonds, notes and capital leases	<u>326,541</u>	<u>38,992</u>	<u>34,547</u>	<u>330,986</u>	<u>27,316</u>	<u>303,670</u>
<u>Other liabilities</u>						
Medical malpractice	25,960	5,004	3,000	27,964	3,205	24,759
Long term disability	11,607	1,739	2,886	10,460	1,934	8,526
Annuities payable	5,646	231	186	5,691	494	5,197
Health insurance	5,455	25,224	22,065	8,614	8,614	-
Federal loan programs	21,414	1,346	920	21,840	-	21,840
Workers compensation	5,677	1,395	2,837	4,235	3,542	693
Mining and Minerals Trust	55	-	-	55	55	-
Compensated absences	2,750	250	-	3,000	454	2,546
Supplemental disability	608	57	323	342	195	147
Arbitrage rebate	278	191	104	365	64	301
Outstanding check liability	413	450	413	450	450	-
Unemployment compensation	303	612	496	419	419	-
Other	-	1,079	-	1,079	719	360
Total other liabilities	<u>80,166</u>	<u>37,578</u>	<u>33,230</u>	<u>84,514</u>	<u>20,145</u>	<u>64,369</u>
Total	<u>\$ 406,707</u>	<u>\$ 76,570</u>	<u>\$ 67,777</u>	<u>\$ 415,500</u>	<u>\$ 47,461</u>	<u>\$ 368,039</u>

Long-term liabilities as of June 30, 2004, and long-term liability activity for the year ended June 30, 2004, are summarized as follows (in thousands):

	June 30, 2003	Additions	Reductions	June 30, 2004	Current Portion	Noncurrent Portion
<u>Bonds, notes and capital leases</u>						
Educational buildings bonds	\$ 114,100	\$ 128,375	\$ 88,150	\$ 154,325	\$ 12,760	\$ 141,565
Housing and dining bonds	28,621	57,050	6,396	79,275	2,640	76,635
Hospital bonds	3,850	-	-	3,850	2,080	1,770
Library bonds	43,565	-	1,045	42,520	1,105	41,415
Capital leases	45,013	4,950	6,877	43,086	5,146	37,940
Notes payable	3,979	915	1,409	3,485	3,063	422
Total bonds, notes and capital leases	<u>239,128</u>	<u>191,290</u>	<u>103,877</u>	<u>326,541</u>	<u>26,794</u>	<u>299,747</u>
<u>Other liabilities</u>						
Medical malpractice	24,783	3,846	2,669	25,960	3,315	22,645
Long term disability	10,774	3,719	2,886	11,607	2,170	9,437
Annuities payable	5,298	980	632	5,646	686	4,960
Health insurance	3,821	22,259	20,625	5,455	5,455	-
Federal loan programs	20,767	647	-	21,414	-	21,414
Workers compensation	4,827	4,268	3,418	5,677	2,767	2,910
Mining and Minerals Trust	604	-	549	55	-	55
Compensated absences	2,500	250	-	2,750	417	2,333
Supplemental disability	367	446	205	608	328	280
Arbitrage rebate	1,862	-	1,584	278	-	278
Outstanding check liability	374	413	374	413	413	-
Unemployment compensation	113	953	763	303	303	-
Total other liabilities	<u>76,090</u>	<u>37,781</u>	<u>33,705</u>	<u>80,166</u>	<u>15,854</u>	<u>64,312</u>
Total	<u>\$ 315,218</u>	<u>\$ 229,071</u>	<u>\$ 137,582</u>	<u>\$ 406,707</u>	<u>\$ 42,648</u>	<u>\$ 364,059</u>

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods as of June 30, 2005, are as follows (in thousands):

	Principal	Interest	Total
2006	\$ 27,316	\$ 13,217	\$ 40,533
2007	28,565	12,360	40,925
2008	25,336	11,464	36,800
2009	25,380	10,632	36,012
2010	17,916	9,777	27,693
2011 - 2015	77,683	39,169	116,852
2016 - 2020	79,136	22,742	101,878
2021 - 2025	49,654	5,809	55,463
Total	<u>\$ 330,986</u>	<u>\$ 125,170</u>	<u>\$ 456,156</u>

At June 30, 2005, assets with a fair market value of approximately \$55,530,000 have been placed on deposit with trustees to totally defease bonds with a par amount of \$53,475,000. The liability for these fully defeased bonds is not included in the financial statements.

On December 14, 2004, \$6,230,000 of Housing and Dining Refunding Revenue Bonds Series P and Q (Second Series) were issued at a net interest cost of 3.657 percent, representing a full refunding of the original \$2,140,000 Housing and Dining Series P, dated April 1, 1996 and a full refunding of the original \$6,645,000 Housing and Dining Series Q, dated May 1, 1997. The refunding defeased \$1,215,000 Series P bonds and \$4,540,000 Series Q bonds outstanding as of June 1, 2005. The refunding will decrease the University's total debt service payments over the next 20 years by \$365,399, representing an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$299,918.

9. COMPONENTS OF RESTRICTED EXPENDABLE NET ASSETS

Restricted expendable net assets are subject to externally imposed stipulations or conditions that must be followed and cannot be used for support of general operations of the University. At June 30, 2005 and 2004, respectively, restricted expendable net assets were composed of the following (in thousands):

	2005	2004
Appreciation on permanent endowments	\$ 73,770	\$ 62,219
Term endowments	5,655	5,718
Quasi-endowments initially funded with restricted assets	43,525	45,998
Funds restricted for capital purposes	14,311	17,193
Funds restricted for non-capital purposes	70,494	64,638
Loan funds (primarily University funds required for Federal match)	8,726	8,283
Total	<u>\$ 216,481</u>	<u>\$ 204,049</u>

10. DESIGNATIONS OF UNRESTRICTED NET ASSETS

Unrestricted net assets are designated for specific purposes by action of the Board of Trustees or management or may otherwise be limited by contractual agreements. Commitments for the use of unrestricted net assets at June 30, 2005 and 2004, respectively, are as follows (in thousands):

	2005	2004
Working capital requirements	\$ 54,447	\$ 40,317
Budget appropriations for future year fiscal operations	27,057	27,018
Designated for capital projects	60,079	49,589
Designated for renewal and replacement of capital assets	169,265	170,172
Hospital	125,263	92,892
Affiliated corporations	65,989	60,701
Total	<u>\$ 502,100</u>	<u>\$ 440,689</u>

11. PLEDGED REVENUES

Certain revenues reflected in the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2005 and 2004, are pledged as security for the University's outstanding bonds, as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Student tuition and fees, pledged as collateral for the University's Consolidated Educational Buildings Revenue Bonds	\$ 178,587	\$ 170,018
Housing and Dining system revenues, pledged as collateral for the University's Housing and Dining System Revenue Bonds	\$ 24,021	\$ 24,329
Hospital patient services revenue, pledged as collateral for University's Hospital Revenue Bonds	\$ 441,935	\$ 371,982

12. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Interest and dividends earned on endowment investments	\$ 11,294	\$ 7,105
Realized and unrealized gains and losses on endowment investments	26,742	67,103
Interest and dividends on cash and non-endowment investments	16,101	9,694
Realized and unrealized gains and losses on non-endowment investments	1,503	(6,568)
Investment income from external trusts	<u>877</u>	<u>768</u>
Total	<u>\$ 56,517</u>	<u>\$ 78,102</u>

13. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. For the years ended June 30, 2005 and 2004, the University received income from these trusts of approximately \$877,000 and \$768,000, respectively. The market value of the external trust assets as of June 30, 2005 and 2004 was approximately \$40,950,000 and \$37,762,000, respectively. However, as the University does not have ownership of the trust assets held by external trustees, the trusts are recorded at a nominal value of \$1 each.

14. PLEDGES AND DEFERRED GIFTS

At June 30, 2005, pledges totaling approximately \$35,797,000 are expected to be collected primarily over the next five years, as follows (in thousands):

Operating purposes	\$ 3,975
Capital projects	14,349
Endowment principal	<u>17,473</u>
Total	<u>\$ 35,797</u>

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," the University is required to record operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are actually received. Accordingly, for the years ended June 30, 2005 and 2004, the University recorded the discounted value of operating and capital pledges, net of the allowance for uncollectible pledges, of approximately \$9,782,000 and \$8,990,000, respectively.

Deferred gifts through insurance, known bequests and irrevocable trusts in which the University has a remainder interest are estimated to be approximately \$57,302,000 at June 30, 2005. The University records these amounts as revenue when the cash is received.

15. GRANTS AND CONTRACTS AWARDED

At June 30, 2005, grants and contracts of approximately \$182 million had been awarded to the University and the University of Kentucky Research Foundation but not expended. These amounts will be recognized in future periods.

16. PENSION PLANS

Regular full-time employees, including faculty, are participants in the University of Kentucky Retirement Plan, a defined contribution plan. The University of Kentucky Retirement Plan consists of five groups as follows:

Group I	Established July 1, 1964, for faculty and certain administrative officials.
Group II	Established July 1, 1971, for staff members in the clerical, technical and service categories.
Group III	Established July 1, 1972, for staff members in the managerial, professional and scientific categories.
Group IV	Established January 1, 1973, for staff members having U.S. Civil Service retirement entitlement.
Group V	Established July 1, 1987, for staff members covered under the Federal Employees Retirement System that replaced Civil Service (those whose employment began during the period from January 1, 1984 to March 31, 1987). Staff members whose employment began after March 31, 1987 are under one of the above University of Kentucky Retirement Plans.

Participation in the University of Kentucky Retirement Plan is mandatory for all regular full-time employees in groups I, II and III who are age 30 or older. Participation is voluntary for regular full-time employees under the age of 30 and for those employees in groups IV and V. Participants in groups I, II, III and IV contribute 5 percent and the University contributes 10 percent of the participant's eligible compensation to the retirement plan. Participants in group V contribute 1 percent and the University contributes 2 percent of the participant's eligible compensation to the retirement plan.

The University has authorized three retirement plan carriers, as follows:

Teachers Insurance and Annuity Association/College
Retirement Equities Fund (TIAA/CREF)
Fidelity Institutional Services Company
American Century Investments

Under the fully funded University of Kentucky Retirement Plan, the University and plan participants make contributions to provide fully vested retirement benefits to employees in individually owned contracts. The University's contributions and costs for 2005 and 2004 were approximately \$51,702,000 and \$49,597,000, respectively. Employees contributed approximately \$25,626,000 in 2005 and \$24,574,000 in 2004. The University's total payroll costs were approximately \$730,380,000 and \$701,427,000, respectively, for the years ended June 30, 2005 and 2004. The payroll for employees covered by the retirement plan was approximately \$517,025,000 and \$495,973,000 for 2005 and 2004, respectively.

In addition to retirement benefits provided from the group retirement plan, the University provides supplemental retirement income benefits to certain eligible employees in each of the retirement groups (see Note 17).

17. MINIMUM ANNUAL RETIREMENT BENEFITS AND SUPPLEMENTAL RETIREMENT INCOME

Employees in retirement groups I, II and III, referred to in Note 16, who were age 40 or older prior to the date of establishment of each group plan, and who were employed by the University prior to that date, qualify for the minimum annual retirement benefit provisions of the retirement plan. Benefits for these eligible employees are based upon a percentage, determined through years of service, of the participant's annual salary in the last year of employment prior to retirement. Retirement benefits as determined are funded by each individual retiree's accumulation in the group retirement plan, with the balance, if necessary, provided by the University as supplemental retirement income.

The Legislature of the Commonwealth of Kentucky has appropriated funds to the University for the payment of supplemental retirement income benefits since adoption of the group retirement plans, and is expected to continue this practice. However, the Constitution of the Commonwealth of Kentucky prohibits the commitment of future revenues beyond the end of the current biennium. Accordingly, the University does not recognize the liability for supplemental retirement income benefits during the service life of covered employees, but recognizes its costs when funds are appropriated by the Legislature and payments are made. The University intends to continue paying supplemental retirement income benefits contingent upon the Legislature continuing to appropriate funds required to make these payments. Supplemental retirement benefit payments were approximately \$3,460,000 and \$3,680,000 for the years ended June 30, 2005 and 2004, respectively.

The latest actuarial valuation was prepared as of June 30, 2004, by TIAA. The actuarial present value of accumulated supplemental retirement income benefits as determined by this valuation, utilizing an assumed rate of return of 7 percent, was \$21,934,000.

18. HEALTH INSURANCE BENEFITS FOR RETIREES

The University provides a health care credit towards health insurance coverage to retirees who have a minimum of fifteen years service. The University recognizes the cost of providing this credit by expensing the credit in the year provided. These health care credits totaled approximately \$7,311,000 and \$6,708,000 for the years ended June 30, 2005 and 2004, respectively. At June 30, 2005, there were 2,348 retirees who met the service requirement and were receiving the health care credit.

19. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, participation in insurance risk retention groups or self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and most other causes of loss between \$500 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$500 million per occurrence principally on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to \$200,000 for any one person or \$350,000 for all persons damaged by a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a reciprocal risk retention group. There have been no significant reductions in insurance coverage from 2004 to 2005. Settlements have not exceeded insurance coverage during the past three years.

The University and its agents are insured against medical malpractice by a combination of Sovereign Immunity, self-insurance, commercial liability insurance, and an excess coverage fund established by the Commonwealth of Kentucky. The malpractice liability at June 30, 2005, is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be recorded if it is probable that a liability has occurred and the amount of loss can be reasonably estimated. The liability includes an estimate for claims that have been incurred but not reported at June 30, 2005.

The University is self-insured for the long-term disability income program and has established a 501(c)(9) trust for purposes of paying claims and establishing necessary reserves. The estimated long-term disability payments for known claims at June 30, 2005 are reported at their present value assuming an investment yield of 6 percent.

The University also self-insures certain employee benefits, including health insurance, worker's compensation, unemployment claims, and a long-term disability supplemental reserve, to the extent not covered by insurance. The University has recorded an estimate for asserted claims at June 30, 2005.

Long-term liabilities related to self-insurance are detailed in Note 8, above.

20. CONTINGENCIES

The University is defendant in various lawsuits. However, University officials are of the opinion, based on advice of in-house legal counsel, that the effect of the ultimate outcome of all litigation will not be material to the future operations or financial position of the University.

21. NATURAL CLASSIFICATION

The University's operating expenses by natural classification were as follows for the years ended June 30, 2005 and 2004, respectively (in thousands):

	2005	2004
Salaries and wages	\$ 665,604	\$ 637,653
Employee benefits	164,016	156,718
Repairs and maintenance	65,461	68,471
Supplies	165,894	157,283
Depreciation	78,219	70,888
Student scholarships and financial aid	38,531	37,795
Utilities	50,255	47,363
Communications	17,912	17,753
Professional services	94,802	70,294
Travel	13,743	12,789
Resale	9,297	9,468
Other, various	104,471	97,225
Total	<u>\$ 1,468,205</u>	<u>\$ 1,383,700</u>

22. TRANSFER OF LEXINGTON COMMUNITY COLLEGE

The General Assembly of the Commonwealth of Kentucky during the 2004 Regular Session enacted House Joint Resolution 214. The resolution directed the University of Kentucky Board of Trustees to delegate the governance and management responsibilities for the Lexington Community College (LCC) to the Kentucky Community and Technical College System (KCTCS) on or before July 1, 2004. Effective on July 1, 2004, the transition was completed and a memorandum of agreement for transfer was implemented. The following assets, liabilities, and net assets of LCC were transferred to KCTCS effective July 1, 2004 (in thousands):

Assets	\$ 6,116
Liabilities	\$ 1,148
Net Assets	\$ 4,968

These amounts are included in the University of Kentucky consolidated financial statements as of June 30, 2004.

23. RECLASSIFICATIONS

Certain reclassifications to fiscal 2004 comparative amounts have been made to conform with the 2005 classifications.

24. SUBSEQUENT EVENTS

On August 2, 2005, the University sold \$11,495,000 of University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series U, at a net interest cost of 4.13%. The proceeds of the bond issue will be used to complete the construction of several parking garages and to provide funding for several infrastructure projects on the main campus in Lexington, Kentucky.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees of the
University of Kentucky

and

the Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating information contained on pages 39 and 40 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 1, 2005

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

CONSOLIDATING SCHEDULE

STATEMENT OF NET ASSETS

JUNE 30, 2005

(in thousands)

ASSETS

Current Assets

Cash and cash equivalents

Notes, loans and accounts receivable, net

Investments

Inventories and other

Total current assets

Noncurrent Assets

Restricted cash and cash equivalents

Endowment investments

Other long-term investments

Notes, loans and accounts receivable, net

Capital assets, net

Total noncurrent assets

Total assets

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities

Deferred revenue

Long-term liabilities - current portion

Total current liabilities

Noncurrent Liabilities

Long-term liabilities

Total liabilities

INTERFUND BALANCES

NET ASSETS

Invested in capital assets, net of related debt

Restricted

Nonexpendable

Expendable

Total restricted

Unrestricted

Total net assets

	UK	UK Research Foundation	The Fund	Gluck Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
Current Assets												
Cash and cash equivalents	\$ 338,496	\$ 8	\$ 8,666	\$ 1,325	\$ 11,495	\$ 80	\$ 7	\$ 423	\$ 190	\$ 208	\$ 4,089	\$ 364,997
Notes, loans and accounts receivable, net	73,873	32,220	1,677		258	24		2			18,709	126,763
Investments											29,847	29,847
Inventories and other	16,093	1,762			2,683						129	20,676
Total current assets	428,462	33,990	10,343	1,325	14,436	104	7	425	190	217	52,774	542,273
Noncurrent Assets												
Restricted cash and cash equivalents	74,826											74,868
Endowment investments	526,389	4,024	214	8,432	297	1,242	42	12,991				555,365
Other long-term investments	191,027	368			3,176						18,902	213,473
Notes, loans and accounts receivable, net	30,595					44		26			400	31,065
Capital assets, net	958,723	4,271			51,217					235	13,618	1,028,064
Total noncurrent assets	1,781,560	8,663	214	8,432	54,690	1,286	1,818	13,017	-	235	32,920	1,902,835
Total assets	2,210,022	42,653	10,557	9,757	69,126	1,390	1,825	13,442	190	452	85,694	2,445,108
LIABILITIES												
Current Liabilities												
Accounts payable and accrued liabilities	103,118	7,855	133		2,262			6		217	4,485	118,076
Deferred revenue	18,647	21,484			8,245							48,376
Long-term liabilities - current portion	42,864				1,165						3,432	47,461
Total current liabilities	164,629	29,339	133	-	11,672	-	-	6	-	217	7,917	213,913
Noncurrent Liabilities												
Long-term liabilities	327,038				40,250						751	368,039
Total liabilities	491,667	29,339	133	-	51,922	-	-	6	-	217	8,668	581,952
INTERFUND BALANCES												
	18,502	(1,430)	(717)	(3)	(171)						(16,181)	-
NET ASSETS												
Invested in capital assets, net of related debt	722,488	4,270			12,978					235	10,514	750,485
Restricted												
Nonexpendable	379,594	1,131	31	4,676		640	625	7,393				394,090
Expendable	198,665	3,200	1,012	5,078	343	750	1,200	6,043	190			216,481
Total restricted	578,259	4,331	1,043	9,754	343	1,390	1,825	13,436	190	-	-	610,571
Unrestricted												
	436,110	3,283	8,664		3,712						50,331	502,100
Total net assets	\$ 1,736,857	\$ 11,884	\$ 9,707	\$ 9,754	\$ 17,033	\$ 1,390	\$ 1,825	\$ 13,436	\$ 190	\$ 235	\$ 60,845	\$ 1,863,156

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS
CONSOLIDATING SCHEDULE FOR THE YEAR ENDED JUNE 30, 2005
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

	UK	UK Research Foundation	The Fund	Gluck Equine Research Foundation	UK Athletic Association	Humanities Foundation	Mining Engineering Foundation	Business Partnership Foundation	Center on Aging	Central Kentucky Management Services	Kentucky Medical Services Foundation	Total
OPERATING REVENUES												
Student tuition and fees, net	\$ 133,389											\$ 133,389
Federal grants and contracts	13,262	\$ 126,372										139,634
State and local grants and contracts	28,233	59,640	\$ 275									88,148
Nongovernmental grants and contracts	4,860	23,088	2,165									30,113
Recoveries of facilities and administrative costs	298	40,035										40,333
Sales and services	24,104	766	10,283				\$ 1		\$ 3	\$ 3,700		38,857
Federal appropriations	16,136											16,136
County appropriations	11,567											11,567
Professional clinical service fees											\$ 152,477	152,477
Hospital patient services	440,609											440,609
Auxiliary enterprises:												
Housing and Dining, net	32,142				\$ 42,408							32,142
Athletics												42,408
Other auxiliaries	20,699											20,699
Other operating revenues	384		23								59	466
Total operating revenues	725,683	249,901	12,746	-	42,408	-	1	-	3	3,700	152,536	1,186,978
OPERATING EXPENSES												
Educational and general:												
Instruction	219,032	15,108	1,063				37	\$ 69				235,309
Research	65,952	153,540	125	\$ 50			37	69	179			219,952
Public service	84,077	51,983	480				8	2				136,550
Libraries	13,437		4									13,441
Academic support	36,912	1,603	2,247					290				41,052
Student services	18,578	35	82			\$ 10				3,682		18,705
Institutional support	49,491	687	134									53,994
Operations and maintenance of plant	45,577											45,577
Student financial aid	27,621	1,282	57			24		182				29,166
Depreciation	53,164	295								69		53,528
Total educational and general	613,841	224,533	4,192	50	-	34	82	612	179	3,751	-	847,274
Clinical operations (including depreciation of \$726)											121,015	121,015
Hospital (including depreciation of \$19,265)	406,950											406,950
Auxiliary enterprises:												
Housing and Dining (including depreciation of \$2,183)	34,093											34,093
Athletics (including depreciation of \$2,516)	(495)				44,968							44,473
Other auxiliaries	14,018											14,018
Other expenses	382											382
Total operating expenses	1,068,789	224,533	4,192	50	44,968	34	82	612	179	3,751	121,015	1,468,205
Net income (loss) from operations	(343,106)	25,368	8,554	(50)	(2,560)	(34)	(81)	(612)	(176)	(51)	31,521	(281,227)
NONOPERATING REVENUES (EXPENSES)												
State appropriations	287,897											287,897
Gifts and grants	23,301	18	493	611	2	5		106	103			24,639
Investment income	52,695	327	184	639	303	93	132	962	5	7	1,170	56,517
Interest on capital asset-related debt	(11,005)				(2,057)							(13,062)
Grant to/(from) the University for non-capital purposes	47,592	(15,895)	(7,702)	(610)	(2,057)	(12)	(18)	(154)			(30,539)	-
Other nonoperating revenues and expenses	1,060	761			1,522							3,343
Net nonoperating revenues	401,540	(14,789)	(7,025)	640	7,108	86	114	914	108	7	(23,369)	359,334
Net income (loss) before other revenues, expenses, gains, or losses	58,434	10,579	1,529	590	4,548	52	33	302	(68)	(44)	2,152	78,107
Capital appropriations	732											732
Capital grants and gifts	19,208	103									(396)	18,915
Additions to permanent endowments	33,539						60	51				33,650
Grant to/(from) the University for capital purposes	14,288	(9,482)	(1,187)		(3,605)			(2)	(12)			-
Transfer of net assets of Lexington Community College	(4,968)											(4,968)
Other	61,016	(9,379)	(1,187)	-	(3,579)	-	60	49	(12)		(396)	46,572
Total other revenues	119,450	1,200	342	590	969	52	93	351	(80)	(44)	1,756	124,679
INCREASE (DECREASE) IN NET ASSETS	1,617,407	10,684	9,365	9,164	16,064	1,338	1,732	13,085	270	279	59,089	1,738,477
NET ASSETS, beginning of year	\$ 1,736,857	\$ 11,884	\$ 9,707	\$ 9,754	\$ 17,033	\$ 1,390	\$ 1,825	\$ 13,436	\$ 190	\$ 235	\$ 60,845	\$ 1,863,156
NET ASSETS, end of year												

Governing Board and Administrative Staff as of June 30, 2005

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JoEtta Y. Wickliffe, Vice Chair
Elaine A. Wilson, Secretary
Barbara W. Jones, Assistant Secretary

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College of Social Work



UNIVERSITY OF KENTUCKY

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